M.E.P.C. CANADIAN PROPERTIES LIMITED

ANNUAL REPORT 1971

"LA PROMENADE"–SPARKS STREET, OTTAWA

A development of the M.E.P.C. Group completed and leased in 1971.

M.E.P.C. CANADIAN PROPERTIES LIMITED

Board of Directors

Executive Officers

W. G. TUCKER, Q.C.
Chairman of the Board

P. A. ANKER, F.R.I.C.S.
President and General Manager

G. E. A. PACAUD, LL.B.
Vice-President and Secretary/Solicitor

R. A. GREINER, F.R.I.
Vice-President, Real Estate

R. H. D. KING, C.A., A.C.A.
Vice-President and Treasurer

M. H. MORGAN, A.R.I.C.S., F.R.I.
Vice-President, Administration and Eastern Region

P. W. SKYNNER, F.R.I.
Vice-President, Western Region

M. E. BILLINGHURST, A.R.I.C.S.
Vice-President, Ontario

Head Office

27 WELLESLEY STREET EAST, TORONTO 280, ONTARIO

Auditors

CAMPBELL, SHARP, NASH & FIELD, CHARTERED ACCOUNTANTS

Stock Transfer Agent and Registrar

THE ROYAL TRUST COMPANY

Bond Trustees

THE ROYAL TRUST COMPANY   MONTREAL TRUST COMPANY

Common Shares Listed

THE TORONTO STOCK EXCHANGE   THE MONTREAL STOCK EXCHANGE

Preference Shares and Debenture Warrants Listed

THE TORONTO STOCK EXCHANGE

Bankers

BANK OF MONTREAL
CANADIAN IMPERIAL BANK OF COMMERCE
BANK OF BRITISH COLUMBIA

M.E.P.C. Canadian Properties Limited is a subsidiary company of Metropolitan Estate and Property Corporation Limited, London, England.

REPORT OF THE PRESIDENT TO SHAREHOLDERS

I am pleased to report your Company's continued good financial results for the past year. The net profit has increased by some 33% from normal operations, and by approximately 47% when account is taken of the extraordinary gain arising from the sale of one of our properties. During the past year we increased our capitalization through a rights offering of common shares, and also by the issue of 400,000 common shares to acquire United Kingdom Properties Limited. On a weighted average per share our earnings have increased by over 14% before taking account of the extraordinary gain and some 30% after. The accounts show a good cash flow and subject to the Canadian economy maintaining some reasonable stability, I see no reason why our growth pattern should not continue.

The improved results enabled the Directors to declare an increase in the half-yearly dividend from 5¢ to 7¢ per share. On an annual basis this represents an increase in the annual rate of dividend of 40%, a satisfactory achievement in a period of Canadian business which to say the least, has not been particularly cheerful for many companies.

The increase in revenue and earnings during the past year has been due to the completion of several of our substantial developments, a full year's income from United Kingdom Properties Limited, and a general improvement in rental revenue from existing leases as they came due for renewal during the year.

In Canada, the past few months have not been an easy period in which to plan for the future. It has been a time of general uncertainty due to a number of factors including rising unemployment, the fears of promised new tax legislation, and general economic problems—some unique to Canada, and some worldwide. As a result, our investment and development policy has been most selective, concentrating upon the acquisition of "existing" income rather than "anticipated" income. As part of this policy we acquire retail properties in key locations whenever possible. It has been our experience that over the years there has been a good demand for this type of real estate and in our opinion this will be maintained. We continue to acquire or develop industrial properties, but at this time we deal mainly with industrial centres which offer a wide variety of accommodation rather than the single occupant building so popular a short time ago. We have been fortunate in maintaining a very high occupancy rate in our commercial buildings. At the present time we are very reluctant to embark on any new ventures in the office field, because there is still a substantial amount of accommodation to be filled in most of our major cities. We are, of course, always willing to proceed if we can obtain a substantial pre-letting, but the whole mood of business at the moment seems to be one of standing firm rather than expansion.

I mentioned in my report to the shareholders last year that the residential field had become quite unattractive to M.E.P.C. We were never in this segment of the property business to any large degree, mainly due to its heavy absorption of management time and the fact increased operating costs often offset any appreciation in rents. During the past year we have disposed of two of the three apartment blocks that were in our portfolio, leaving us with only one.

If current political trends continue, it is my personal belief that in a few years' time, private enterprise may have no alternative but to move out of the rental portion of the residential industry. The delays, frustrations, and often abuses, that companies have to go through to carry out an apartment development are just not equitable, and today even when the development is completed, there is the continual threat of new legislation against the landlord; not to mention problems of tenants' unions, rent restrictions, etc. Up to this time, many fine Canadian companies have spent a great deal of time and effort in producing excellent living accommodation for the Canadian people together with first class management and professional expertise. In my opinion, because of its red tape and indecision, some segments of government are not equipped to handle residential real estate, as can be clearly seen all over the country.

As far as M.E.P.C. is concerned, our future to a large extent is geared to the future of the country. Over the past few years we have acquired some valuable pieces of real estate which will either continue to appreciate in value as investments, or one day will become ripe for redevelopment. For the moment, we are concentrating upon building up our rental roll through the acquisition of existing investments or developments with substantial pre-lettings. One of the great strengths of M.E.P.C. is its ability to operate on a national scale so that the growth in one particular area can help offset any temporary weaknesses in another.

I have set out in the end of this report, a brief outline of our new management structure. My appointment a short time ago as Deputy Managing Director in London with specific responsibilities for the M.E.P.C. Group in other parts of the world as well as Canada, created the need for a Management Committee to handle the Company's affairs during my absence from time to time. We have an extremely competent professional team of young men who between them have a broad knowledge of all facets of the business. Our regional vice-presidents are skilled in searching out new business, and our branch managers deal with day-to-day operations of our property as well as being on the spot to take advantage of any local opportunities.

On September 30th your Board accepted with regret the resignation of Sir Charles Hardie as Chairman and a Director of the Company. During the six years Sir Charles was Chairman of M.E.P.C., its assets increased more than five-fold. We are most grateful for his support and wise counsel over the past years.

On October 1st, the Board invited Mr. W. G. Tucker, Q.C., to become Chairman of the Board, and the invitation was also extended to Sir Henry Johnson, C.B.E., the Chairman of Metropolitan Estate and Property Corporation Limited, of London, England, to become a Director.

Finally, I would like to express sincere thanks to all the members of the staff who have contributed to the growth of the Company. I am confident there is a most able young team to lead the Company in the future.

P. A. Anker
President

November 5, 1971.

FAIRMONT WILLOW MEDICAL BUILDING—VANCOUVER

A development of the M.E.P.C. Group completed in 1971.

ANNUAL REPORT FOR 1971 of MEPC CANADIAN PROPERTIES LTD

consolidated balance sheet as at September 30, 1971

ASSETS		1971	1970
		(in thousands of dollars)	
Cash		**$ 122**	$ 176
Bank deposit receipts and other short-term investments		**2,134**	5,001
Rents and sundry receivables		**407**	511
Prepaid expenses		**546**	346
Properties at cost, less accumulated depreciation of $4,417; 1970—$3,740 (notes 2 and 3)	**$84,777**		60,082
Developments in progress at cost (note 2)	**4,014**		11,274
		88,791	71,356
Investments in and advances to affiliated companies			
Shares—at cost	**25**		25
First mortgage receivable and advances	**1,000**		1,288
		1,025	1,313
Other first mortgages, loans receivable and agreements for sale		**1,286**	427
Unamortized financing and other expenses		**983**	897
		$95,294	$80,027

On behalf of the Board

W. G. Tucker, Director

P. A. Anker, Director

AUDITORS' REPORT

We have examined the consolidated balance sheet of M.E.P.C. Canadian Properties Limited and its subsidiaries as at September 30, 1971 and the consolidated statements of income, earned surplus and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

LIABILITIES

	1971	1970
	(in thousands of dollars)	
Bank loans	**$ 270**	$ 6,400
Demand loans—secured	—	4,325
Accounts payable and accrued liabilities	**1,873**	3,061
Long-term debt (note 4)	**63,503**	46,530
Deferred income taxes (note 5)	**4,240**	2,858
	69,886	63,174

SHAREHOLDERS' EQUITY

	1971	1970
Capital stock (notes 6 and 7)		
Preference shares	**2,289**	2,385
Common shares	**17,677**	10,064
Earned surplus	**5,442**	4,404
	25,408	16,853
	$95,294	$80,027

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1971 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
October 27, 1971.

CAMPBELL, SHARP, NASH & FIELD, *Chartered Accountants.*

consolidated statement of income for the year ended September 30, 1971

		1971	1970
		(in thousands of dollars)	
RENTAL INCOME		**$10,660**	$ 7,910
Direct property expenses		**3,409**	2,266
NET RENTAL INCOME		**7,251**	5,644
EXPENSES			
Interest—net (note 8)	**$ 3,631**		2,689
Administrative and general	**322**		233
		3,953	2,922
NET OPERATING INCOME		**3,298**	2,722
Depreciation (note 3)		**558**	428
NET INCOME before the following items		**2,740**	2,294
Provision for income taxes—deferred (note 5)		**1,183**	1,125
		1,557	1,169
Gain on sale of property		**211**	34
NET INCOME for the year		**$ 1,768**	$ 1,203
EARNINGS PER COMMON SHARE before gain on sale of property (note 10)		**30.9¢**	27.1¢
EARNINGS PER COMMON SHARE (note 10)		**35.5¢**	27.2¢

consolidated statement of earned surplus for the year ended September 30, 1971

	1971	1970
	(in thousands of dollars)	
BALANCE, beginning of year	**$ 4,404**	$ 3,718
Add: Net income for the year	**1,768**	1,203
Gain on purchase for cancellation of preference shares (note 6)	**23**	14
	6,195	4,935
Less: Dividends paid—preference shares	**140**	145
—common shares	**588**	386
Expenses of rights issue—net of deferred income taxes	**25**	—
	753	531
BALANCE, end of year	**$ 5,442**	$ 4,404

consolidated statement of source and use of funds for the year ended September 30, 1971

	1971	1970
	(in thousands of dollars)	
OPERATIONS		
Net income for the year	**$ 1,768**	$ 1,203
Depreciation (note 3)	**558**	428
Amortization of financing and other expenses	**176**	144
Deferred income taxes (note 5)	**1,183**	1,125
	3,685	2,900
Annual payments on long-term debt	**1,491**	1,158
Funds available from operations	**2,194**	1,742
Dividends paid	**728**	531
Funds available from operations for re-investment	**1,466**	1,211
NEW FINANCING		
Additional long-term debt—net	**18,464**	3,165
Issues of capital stock	**7,613**	66
DECREASE in advances to affiliated companies	**288**	19
INCREASE in bank indebtedness and other net current obligations	**—**	5,688
DECREASE in bank deposit receipts, first mortgages receivable and other short-term investments	**2,867**	3,576
	$30,698	$13,725
REPRESENTED BY:		
Investment in real estate	**$17,876**	$13,331
Decrease in bank indebtedness and other net current obligations	**11,685**	—
Expenses of rights issue	**50**	—
Redemption of preference shares	**73**	42
Increase in other assets—net	**1,014**	352
	$30,698	$13,725

notes to consolidated financial statements for the year ended September 30, 1971

1. PRINCIPLES OF CONSOLIDATION
   - (a) The consolidated financial statements include:
     - (i) The accounts of M.E.P.C. Canadian Properties Limited and all its subsidiaries and
     - (ii) The proportionate share of the assets, liabilities, income and expenses pertaining to the company's undivided interest in a joint venture under development.
   - (b) A minority interest in one subsidiary company is not significant and has not been disclosed separately.

2. PROPERTIES AND DEVELOPMENTS IN PROGRESS

Properties and developments in progress are carried in the balance sheet at cost and include interest during construction, property taxes, professional fees and the related portion of certain administrative expenses. During the 1971 and 1970 fiscal years, the following expenses were capitalized as a part of the cost of properties under development:

	1971	1970
Interest	$ 928,840	$651,445
Property taxes	190,145	67,196
Other expenses—net of rental income	5,540	214,023
	$1,124,525	$932,664

Expenditures of $1,446,000 will be required to complete the current development program as at September 30, 1971. In addition, the company is committed to expenditures aggregating $3,563,000 for the acquisition or development of new properties.

3. DEPRECIATION

The company's depreciation policy is based on a sinking fund method under which an amount increasing at the rate of 6% compounded annually is charged to income so as to fully depreciate the buildings based on a 40-year life. Depreciation expense on buildings amounts to $538,413 for 1971 and $412,289 for 1970.

4. LONG-TERM DEBT

	1971	1970
Mortgages Payable	$28,276,717	$20,797,518
First Mortgage Sinking Fund Bonds		
Series A, 6¾%, due August 1, 1982 (after deducting $20,000 ($131,000 in 1970) principal amount purchased and held for sinking fund purposes)—$125,000 repayable annually	2,230,000	2,244,000
1983 Series, due December 1, 1983		
5⅞%, U.S. $2,562,500 repayable in semi-annual instalments of U.S. $62,500	2,773,815	2,908,815
6⅜%, (after deducting $60,000 ($19,000 in 1970) principal amount purchased and held for sinking fund purposes) —repayable in semi-annual instalments of $12,500	452,500	518,500
1987 Series, due January 9, 1987		
6⅜%, U.S. $2,527,500 repayable in semi-annual instalments of U.S. $52,500	2,731,367	2,844,767
1988 Series, due August 1, 1988		
7-15/16%, U.S. $1,837,500 repayable in semi-annual instalments of U.S. $32,500	1,967,616	2,037,349
1991 Series, due February 1, 1991		
8½%, repayable in semi-annual instalments of $65,000	3,870,000	4,000,000
8%, U.S. $3,870,000 repayable in semi-annual instalments of U.S. $65,000	3,897,090	—
1991 Series, due September 1, 1991		
10½% repayable in semi-annual instalments of $31,000 commencing March 1, 1972	1,525,000	—
Sinking Fund Debentures		
8%, Series A, due November 1, 1991 (after deducting $400,000 principal amount purchased and held for sinking fund purposes)—repayable in annual instalments of $227,500 commencing May 1, 1973	6,600,000	7,000,000
Notes Payable		
7½% (subject to review annually under certain conditions) repayable $2,000,000 August 31, 1974 and $2,000,000 September 26, 1974	4,000,000	2,000,000
6½-7½%, repayable $117,000 April 1, 1985, and $118,000 December 1, 1987	235,000	235,000
Unsecured Advance from Parent Company		
7⅜%, U.S. $1,800,000 repayable December 4, 1972	1,944,000	1,944,000
9½% (subject to review on January 15, 1974) repayable $600,000 January 15, 1975 and $2,400,000 January 15, 1976	3,000,000	—
	$63,503,105	$46,529,949

Long-term debt payable in United States funds has been expressed in Canadian dollars at the rate of exchange prevailing when the funds were received. Conversion at the rate of exchange prevailing at September 30, 1971 would reduce the long term debt by $724,000.

Mortgages payable are subject to interest rates varying from 5¾% to 10¾% (with an average rate of 7½%), mature at various dates in the fiscal years 1972 to 1998 and are repayable approximately as follows:

Fiscal Year	
1972	$ 1,974,026
1973	974,539
1974	1,090,831
1975	$ 1,690,174
1976	1,110,011
Subsequent to 1976	21,437,136
	$28,276,717

5. INCOME TAXES

The company claims maximum capital cost allowances for income tax purposes which exceed recorded depreciation and, in addition, claims in the year incurred, interest and other expenses capitalized in the accounts. In 1969, the company adopted the policy of recording deferred income taxes in accordance with the recommendations issued by the Canadian Institute of Chartered Accountants; income taxes deferred for 1968 and subsequent years have been recorded in the accounts while amounts aggregating $2,057,000 applicable to the years prior to 1968 have not been recorded.

6. CAPITAL STOCK

Authorized	Issued		1971	1970
231,571	91,571	Preference shares with a par value of $25 each, issuable in series—6%, cumulative, redeemable, preference shares, Series A	$ 2,289,275	$ 2,385,375
7,500,000	5,353,925	Common shares without par value	17,677,475	10,064,484
			$19,966,750	$12,449,859

Preference Shares

3,844 Preference shares were purchased for cancellation during the year and the authorized and issued share capital reduced accordingly.

The preference shares, Series A, are redeemable at the option of the company at $26 per share up to and including June 1, 1972, at $25.75 per share until June 1, 1975 and thereafter at reducing amounts.

Common Shares

1,481,515 Common shares without par value were issued during the year for an aggregate consideration of $7,612,991. Of these shares, 1,070,405 were issued to holders of the company's common shares of record at the close of business on June 2, 1971 at a subscription price of $5.20 per common share, 400,000 valued at $5.00 per share, were issued as consideration for the acquisition of all the outstanding shares of United Kingdom Properties Limited, 3,110 were issued to holders of the share purchase warrants, and 8,000 were issued upon the exercise of stock options granted to executives of the company.

841,545 Common shares are reserved for issuance against the exercise of share purchase warrants as follows:

Number of Common Shares Reserved	Exercise Price per Share	Expiry Date
101,545	$3.50	June 30, 1976
40,000	$6.67	December 31, 1976
700,000	$6.00	October 31, 1976

97,000 Common shares are reserved for issuance under stock options granted to executives of the company as follows:

Number of Common Shares Reserved	Exercise Price per Share	Expiry Date
12,000	$4.50	July 31, 1974
55,000	$4.95	August 4, 1976
30,000	$4.95	September 9, 1976

7. DIVIDEND RESTRICTIONS

The Trust Deeds and Trust Indenture under which the First Mortgage Bonds and Sinking Fund Debentures were issued, contain certain restrictions on the declaration or payment of dividends on common shares so long as any of the said bonds or debentures are outstanding.

The conditions attached to the preference shares, Series A, contain certain restrictions on the declaration or payment of dividends on the common shares.

8. INTEREST

Interest expense includes the following:

	1971	1970
Interest on long-term debt (including amortisation of bond discount and other financing expenses)	$4,621,624	$3,352,046
Interest on bank loans and other indebtedness	233,724	823,266
	4,855,348	4,175,312
Less: Interest applicable to properties under development during the year	928,840	651,445
	3,926,508	3,523,867
Less: Income from short-term investments	295,030	835,210
Interest expense—net	$3,631,478	$2,688,657

9. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid during the year to directors and senior officers of the company (as defined in The Business Corporations Act) amounted to $167,572 ($124,571 in 1970).

10. EARNINGS PER SHARE

Earnings per share is based on the weighted monthly average number of shares outstanding during each year (4,590,000 in 1971) and after deduction of dividends paid on the Preferred shares as shown in the Consolidated Statement of Earned Surplus. Exercise of share purchase warrants and stock options outstanding would not dilute the earnings per share.

11. LAND LEASES

The aggregate minimum annual rental obligation under land leases which mature in the years 2010, 2026, 2058 and 2069 amounts to $124,394, $101,431, $53,431 and $44,550 respectively.

12. CONTINGENCIES

The company has temporarily guaranteed a bank loan and mortgage draws aggregating $4,900,000 related to a building under construction by a 50% owned affiliated company. The aggregate net book value of the affiliate's assets at September 30, 1971 are sufficient to satisfy such obligations.

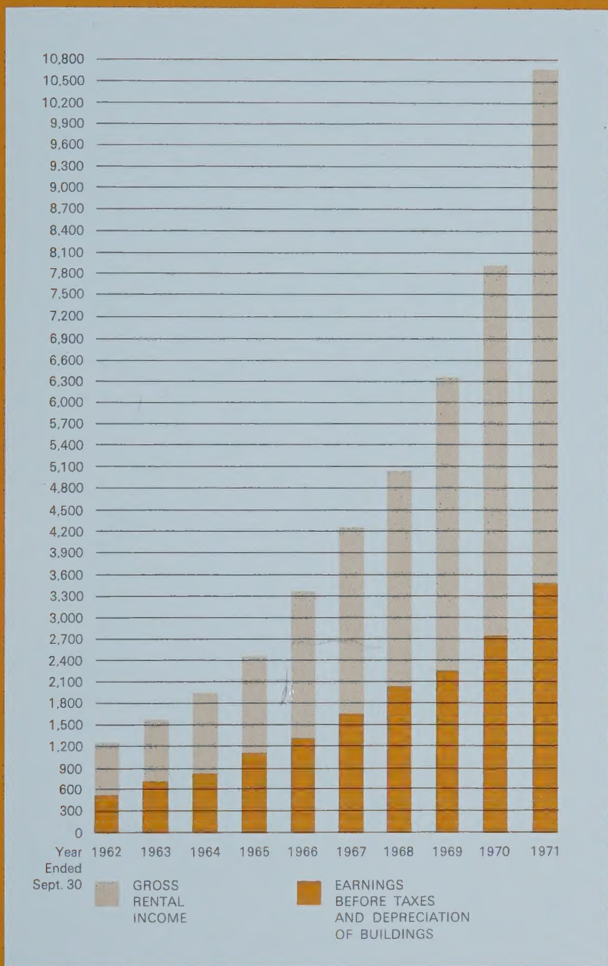
OFFICE BUILDING–QUEBEC CITY

Acquired by the M.E.P.C. Group in 1971.

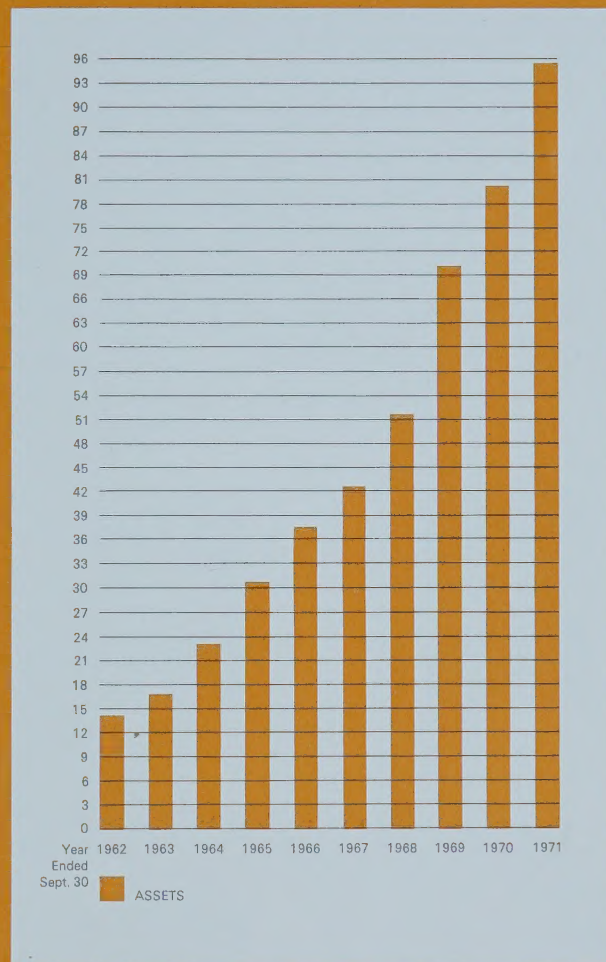
INDUSTRIAL CENTRE–CALGARY

Acquired by the M.E.P.C. Group in 1971.

INCOME GROWTH



ASSET GROWTH



SUMMARY OF EARNINGS FOR THE FIVE YEARS ENDED SEPTEMBER 30, 1971

(Expressed in thousands of dollars)

	Year Ended September 30				
	1967	1968	1969	1970	1971
Earnings from operations	3,055	3,775	4,329	5,429	7,120
Interest—net	1,398	1,726	2,015	2,689	3,631
Depreciation of buildings on sinking fund basis		299	351	412	538
Depreciation of buildings on straight line basis	605				—
Income taxes paid	120	145			—
Deferred income taxes (note 5)		735	998	1,125	1,183
Net income	932	870	965	1,203	1,768

As a member of C.I.P.R.E.C. (The Canadian Institute of Public Real Estate Companies), M.E.P.C. Canadian Properties Limited and all its subsidiaries support the principles of uniform disclosure of financial information as recommended by C.I.P.R.E.C.

M.E.P.C. CANADIAN PROPERTIES LIMITED

Management Structure

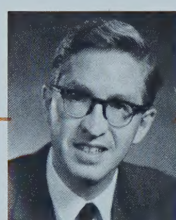
Board of Directors

PRESIDENT & GENERAL MANAGER

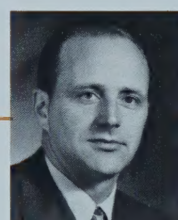
P. A. Anker, F.R.I.C.S.

MANAGEMENT COMMITTEE

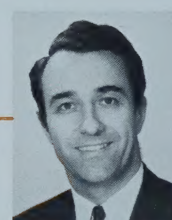
G. E. A. Pacaud, LL.B.
Vice-President
Secretary/Solicitor



R. H. D. King, C.A., A.C.A.
Vice-President
Treasurer



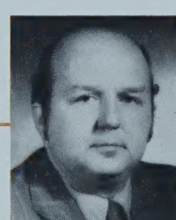
R. A. Greiner, F.R.I.
Vice-President
Real Estate



M. H. Morgan, A.R.I.C.S., F.R.I.
Vice-President
Administration

DEVELOPMENT DEPARTMENT

J. W. Weir, F.R.A.I.C.
Chief Architect



D. H. De Ville
Chief Designer

REGIONAL DEVELOPMENT

Western Region
P. W. Skynner, F.R.I.
Vice-President

- *Victoria* — J. W. E. Hayes, F.R.I.
- *Vancouver* — R. A. Adam
- *Calgary* — T. F. Prete
- *Winnipeg* — A. K. Stephens, F.R.I.

Ontario Region
M. E. Billinghurst, A.R.I.C.S.
Vice-President

- *Toronto* — P. J. Smulders, F.R.I.
- *Ottawa* — F. Staples

Eastern Region
M. H. Morgan, A.R.I.C.S., F.R.I.
Vice-President

- *Quebec City* — R. W. Heslop, F.R.I.
- *Halifax* — D. G. MacGibbon

BANK OF MONTREAL BUILDING–PLACE D'YOUVILLE, QUEBEC CITY

A development of the M.E.P.C. Group in conjunction with Placements Racine Inc. completed in 1971.